



## INDONESIA: ENERGY HIGHLIGHTS FEBRUARY 2006

### Summary

- Indonesian petrochemical firm PT Intan Jaya Agromega Abadi launched construction of Indonesia's first privately owned refinery on February 17.
- State gas company PGN began trenching for its underwater pipeline from South Sumatra to West Java on February 27.
- State electricity company PLN opened pre-qualification bidding for its Tanjung Priok power project on February 16.
- State oil and gas company Pertamina increased non-subsidized fuel prices by 5 % in February.
- On February 3, the Jakarta Stock Exchange briefly suspended trading of shares in the Indonesian firms Bumi Resources and Energi Mega Persada based on rumors the two firms would merge.
- PT Freeport Indonesia halted mining operations for four days on February 22 due to a blockade by local illegal miners.
- On February 20, the first unit of the 600 megawatt (MW) Cilacap power project began supplying electricity to the Java-Bali grid, the first large scale power plant completed since the 1997-98 financial crisis.
- On February 22, Pertamina and Indonesia's Para Group signed a memorandum of understanding (MOU) to develop three geothermal power plants.

Note: This report uses an exchange rate of 1 USD = Rp 9,050

## **Oil and Energy Infrastructure Updates**

On February 17, local petrochemical firm PT Intan Jaya Agromega Abadi (IAA) reportedly launched construction of the Pare Pare oil refinery in South Sulawesi, which will be Indonesia's first privately operated refinery. IAA reportedly teamed up with joint venture partner Texas-based Inter Global Technologies, which will build and operate the plant. The refinery is slated to have a production capacity of 300,000 barrels per day producing kerosene and diesel fuel for the export and domestic markets. The total cost of the project is estimated to be \$3.5 billion and production is likely to start in 2010.

State gas company PGN began trenching work on 27 February for the South Sumatra-West Java phase I (SSWJ I) underwater pipeline project, worth an estimated \$167 million. The 105 kilometer offshore pipeline stretches from Pagardewa, Sumatra to Cilegon, West Java. Japan's Nippon Steel Corporation is the primary contractor with French Geocem and India's Dharti as sub-contractors. PGN hopes to complete the SSWJ I project by October 2006 and begin piping gas in December 2006. Once completed the SSWJ Phase I will have a capacity of 250 million cubic feet per day (mmcf) transporting gas from Pertamina's Pagardewa field to industry and household users in West Java area. Concurrently, PGN is also preparing for the construction of the 661 kilometer-SSWJ phase II, which will run from ConocoPhillips's Grissik field, South Sumatra to Bekasi, West Java.

On February 16, state electricity company PLN opened pre-qualification bidding for the gas-fired Tanjung Priok power plant extension project in Jakarta. The project involves construction of a new combined cycle power generation plant with a maximum capacity up to 720 MW. PLN reportedly secured funding for the project from the Japan Bank for International Cooperation (JBIC) with a loan valued at approximately USD 542 million. Currently the Tanjung Priok power plant has 1,180 MW of generating capacity. The Tanjung Priok extension project is part of PLN's efforts to reduce petroleum fuel consumption for power generation.

## **Fuel Price Increases for Non-Subsidized Fuels**

Pertamina raised prices an average 5% for its non-subsidized fuels in February, owing to a rise in global crude benchmarks. Pertamina also reported a 5% reduction in February fuel consumption for non-subsidized fuels, down to 166 kiloliters (KL) per day compared to 175 KL in January 2006.

Table 1: Non-Subsidized Fuel Price Changes

Fuel Type	Dec-06	Jan-06	Feb-06	Percent Change
<b>Transport</b>				
Pertamax	5,400	5,000	5,400	8.0
Pertamax Plus	5,600	5,200	5,300	1.9
Pertamina DEX	5,900	5,500	5,800	5.5
<b>Industry</b>				
Premium	5,150	4,780	4,930	3.1
Kerosene	5,550	5,320	5,740	7.9
Gasoil	5,340	4,950	5,200	5.1
Diesel Oil	5,180	4,810	5,020	4.4
Fuel Oil	3,680	3,480	3,640	4.6

\*Percent change between January 2006 and February 2006.

### **Bumi Resources and EMP to Merge?**

The Jakarta Stock Exchange (JSX) suspended trading of Bumi Resources and Energi Mega Persada (EMP) shares on February 2 amid rumors of merger plans for the two companies. Bumi Resources, the major shareholder of Kaltim Prima Coal and Arutmin, is Indonesia's largest coal exporter with a combined annual production of over 30 million tons in 2004. EMP is Indonesia's second largest privately owned domestic oil and gas company with interests in 8 exploration blocks and proven reserves of 319 million barrels. Both companies, which are affiliated with the Bakrie Group, denied the merger report, saying that the plan was only a preliminary discussion between managements. The JSX resumed trading in both companies on February 6. Subsequently on February 15, EMP announced that it had appointed Ernst and Young as an independent advisor to conduct a feasibility study of the merger plan. If completed, the merger would create Indonesia's largest private energy company with combined assets worth over Rp 21.1 trillion (USD 2.3 billion).

### **Freeport Halts Production**

On February 22, a blockade by local illegal miners forced U.S. mining giant Freeport McMoRan's Indonesian subsidiary, PT Freeport Indonesia, to halt production at its Grasberg mine in Papua. Hundreds of illegal miners blocked the road leading to the mine for four days after clashing with security officials, who tried to evict them from the area. The illegal miners sift through the tailings from the Freeport mine searching for

trace quantities of gold. The company resumed operations on February 25 after the miners agreed to end the blockade. Protests continued on February 23 in Jakarta, where Papuan students attacked the lobby of the building in which PT Freeport has offices, breaking plate glass windows and setting fires. Freeport Indonesia has operated in Indonesia since 1967 and is the country's largest gold and copper producer with over 2.6 million tons of copper concentrate and 108 tons of gold output in 2005. The company is also Indonesia's largest corporate tax and royalty payer, with payments totaling USD 1.2 billion in 2005.

### **Cilacap Plant Begins Supplying Power**

On February 20, the coal-fired Karangandri (Cilacap) power plant started its first 300 MW unit and began supplying electricity to the Java-Bali grid. Reportedly costing USD 510 million, the Cilacap power project is the first large scale power project completed since the economic crisis in 1997. When fully completed, the plant will have a power generating capacity of 600 MW. PT Sumber Segara Prima, a PLN and PT Sumberenergi Sakti Prima joint venture, managed the construction with China's Chengda Engineering Corporation (CECC) as prime contractor. The plant is scheduled to be at full generation capacity in May 2006 when a second 300 MW unit comes online. In addition to Cilacap, the coal-fired Tanjung Jati B (1,320 MW) and the gas-fired Cilegon (740 MW) power plants are scheduled to begin operations in late 2006. These three projects, financed by JBIC, will augment PLN's supply and reserve margin in the Java-Bali area as demand continues to outpace supply on the grid.

### **Pertamina Inks Geothermal Development Deal**

On February 22, Pertamina and Para Group, a diversified Indonesian holding company with activities in banking, property and television broadcasting, signed an MOU to develop three geothermal power projects, Kamojang Unit 6 (West Java), Ulu Belu (Lampung, Sumatra) and Lumut Balai (South Sumatra). The three projects with a combined production capacity of 1,060 MW are reportedly worth USD 1.5 billion. The two companies declined to say when the projects would begin construction. In related news on the same day, Pertamina announced it had awarded an engineering procurement and construction (EPC) contract for the Kamojang Unit 4 geothermal plant to a consortium comprised of local firm PT Rekayasa Industry and the American firm Stone and Webster Indonesia. According to industry studies, Indonesia holds 40 % of the world's geothermal potential, of which only 5 % is currently developed.

## **Berau Coal and Sojitz to develop Biodiesel fuel**

On February 24, the Indonesian coal mining firm Berau Coal signed a memorandum of understanding (MOU) with Japan's Sojitz Corporation (formerly Nissho Iwai) to develop a biodiesel fuel plant in Berau regency, East Kalimantan. The project will blend oil extract from the seeds of the *Jatropha Curcas* plant with alcohol to produce biodiesel fuel. The Ministry of Energy and Mineral Resource's research Institute (Lemigas) and the Agency For Assessment and Application of Technology (BPPT) are supporting the project, which is scheduled to be completed in 2009. Biodiesel functions as a diesel substitute or as a fuel blending agent to produce a cleaner product than current fuels. In January 2006, President Susilo Bambang Yudhoyono issued Presidential Regulation 1/2006 on Biofuel as an Alternative Energy Source. The Regulation encourages ministers, governors and regents to facilitate biofuel development. However, according to industry analysts, the lack of regulatory standards for fuel blending and the limited reliability of raw materials limit the potential for biofuels in Indonesia.